BANKING AND FINANCE PRINCIPLES

Curriculum Content Frameworks

Please note: All assessment questions will be taken from the knowledge portion of these frameworks.

Prepared by

Annette Baggett, Cleveland County High School

Shelia Barnett, Cabot High School

Loretta Burgess, Greenbrier High School

Alana Russell, Salem High School

Facilitated by

Karen Chisholm, Education and Instruction Manager

Lesia Edwards, Education and Instruction Coordinator

Office of Assessment and Curriculum

Arkansas Department of Career Education

Edited by

Jim Brock, Education and Instruction Manager

Ginger Fisher, Education and Instruction Coordinator

LaTrenda Jackson, Education and Instruction Coordinator

Tim Johnston, Education and Instruction Coordinator

Peggy Wakefield, Education and Instruction Coordinator

Office of Business and Marketing Technology

Arkansas Department of Career Education

Disseminated by

Career and Technical Education

Office of Assessment and Curriculum

Arkansas Department of Career Education

Development/Revision Began: 03/2011

Placed on the Web: 00/0000

Curriculum Content Frameworks

BANKING AND FINANCE PRINCIPLES

Grade Levels: 11,12 Course Code: 492050	Prerequisite: Computerized Business Applications (CBA) or Computer Applications I and Computer Applications II

Course Description: Banking and Finance Principles is a one-semester course that assists the student in understanding the American banking system. Students study the Federal Reserve System, banking and the economy, functions of depository institutions, and daily transactions of depository institutions. This curriculum is adopted from Wisconsin Finance Youth Apprenticeship, Wisconsin Department of Industry, Labor, and Human Relations, Bureau of Apprenticeship Standards, Office for Workforce Excellence.

Table of Contents

Unit 1: History of Banking
Hours: 15

Terminology: Bank run, CAMELS (Capital adequacy, Asset adequacy, Management, Earnings, Liquidity and Sensitivity to risk), Central banks, Commercial banks, Currency, Depositors, Depository intermediary, Deregulaion, Discount rate, District reserve bank, Federal Deposit Insurance Corporation (FDIC), Financial intermediary, Great Depression, Inflation, Medium of exchange, Member bank, Non-depository intermediary, Regulation C, Regulation D, Regulation DD, Retail bank, Stagflation

CAREER and TECHNICAL SKILLS			
What the Student Should Know		What the Student Should be Able to Demonstrate	
Knowledge		**Application**	
1.1	Define terminology	1.1.1	Prepare a list of terms with definitions
1.2	Explain the weakness of the early banking system	1.2.1	Identify the weaknesses of the early banking system
1.3	Explain the National Bank Act and the effects it's had on the banking system	1.3.1	Identify the provisions of the National Bank Act
1.4	Cite the purposes for the creation of the Federal Reserve System	1.4.1	Explain the purposes for the creation of the Federal Reserve System
1.5	Identify the 12 Federal Reserve districts	1.5.1	Create a layout of the location of each Federal Reserve district, indicating its main bank city and its correspondent branch
1.6	Discuss the impact of the Great Depression on the banking industry	1.6.1	Assess the impact of the Great Depression on the banking industry
1.7	Discuss the makeup of the Board of Governors of the Federal Reserve System and how the members are elected or appointed	1.7.1	Explain how a person becomes a member of the Board of Governors of the Federal Reserve System
1.8	Discuss the responsibilities of the Board of Governers of the Federal Reserve System	1.8.1	List the responsibilities of the members of the Board of Governors of the Federal Reserve System
1.9	Discuss monetary policy and how the Federal Reserve exercises control	1.9.1	Identify and explain the three tools of monetary control
1.10	Identify the services of the Federal Reserve System	1.10.1	Explain the importance of the services offered by the Federal Reserve System

Unit 2: Measuring and Reporting Financial Performance
Hours: 10

Terminology: Asset, Equity, Liability, Liquid asset, Net income, Niche market, Profit, Return on assets, Return on equity, Revenue, Spread

CAREER and TECHNICAL SKILLS			
What the Student Should Know		What the Student Should be Able to Demonstrate	
Knowledge		**Application**	
2.1	Define terminology	2.1.1	Prepare a list of terms with definitions
2.2	Describe the importance of accurate accounting data	2.2.1	Indentify the individuals who have a primary interest in the bank's accounting procedures
		2.2.2	Indentify the basic accounting records used by banks
		2.2.3	Indentify the basic accounting methods
2.3	Describe the basic reports that reflect financial data	2.3.1	Analyze the major financial reports and discuss the importance of each
2.4	Explain primary performance ratios	2.4.1	List the primary performance ratios
2.5	Explain cost allocation and pricing of service	2.5.1	Discuss why it is important to establish competitive prices for products and services

Unit 3: Advances in Banking Technology
Hours: 10

Terminology: Bearer instrument, Bill of exchange, Cash card, Charge card, Credit card, Debit card, Draft, Elements of negotiability, Negotiable instrument, Promissory note, Smart card, Electronic Funds Transfer (EFT), On-line banking, E-commerce

CAREER and TECHNICAL SKILLS			
What the Student Should Know		What the Student Should be Able to Demonstrate	
Knowledge		**Application**	
3.1	Define terminology	3.1.1	Prepare a list of terms with definitions
3.2	Describe a negotiable instrument	3.2.1	Name examples of negotiable instruments
3.3	Identify different types of endorsements of negotiable instruments	3.3.1	Negotiate instruments using the five different types of endorsements
3.4	Discuss the current technology used in the banking industry	3.4.1	Discuss the furture technology to be used in the banking industry
3.5	Discuss some of the risks involved with implementing new technology	3.5.1	List some of the preventive measures to implement to lessen the risk to banks
3.6	Explain the deposit function performed by banks	3.6.1	Indentify the improtance of the deposit function
3.7	Distinguish among the different types of deposit accounts	3.7.1	Indentify and define the eight types of deposity accounts

Unit 4: The Deposit and Payment Function
Hours: 10

Terminology: Aggregate measures, Annual percentage rate, Annual percentage yield, Certificate of Deposit (CD), Checking account, Commodity money, Compound interest, Demand deposit, Discount rate, Excess reserves, Federal funds rate, Fiat money, Fractional-reserve system, Interest, Liquidity, Money Market Deposit Account (MMDA), Money supply, Multiplier effect, Primary reserves, Prime rate, Secondary reserves, Statement savings account, Time deposit, Transaction account

What the Student Should Know		What the Student Should be Able to Demonstrate	
Knowledge		**Application**	
4.1	Define terminology	4.1.1	Prepare a list of terms with definitions
4.2	Explain the deposit function performed by banks	4.2.1	Identify the importance of the deposit function
4.3	Distinguish among the different types of deposit accounts	4.3.1	Identify and define the eight types of deposit accounts
4.4	Distinguish the difference between cash and noncash items	4.4.1	Differentiate between cash and noncash items
4.5	Determine what authortiy is required to open an account	4.5.1	Identify the three requirements needed to determine authority to open an account
4.6	Discuss the difference among demand deposit, savings, and time deposit	4.6.1	Compare the features of the three different types of accounts
4.7	Explain the difference between paying and cashing a check	4.7.1	Determine whether a check is being paid or cashed when given examples of situations
4.8	Discuss magnetic ink character recognition (MICR)	4.8.1	Identify the meaning and placement of MICR data on checks
4.9	Explain the concept of *float* in relationship to a check and electronic purchases	4.9.1	Identify the float in payment procedures
4.10	Explain the concept of *clearing* items for payment	4.10.1	Identify the different methods of clearing items received for payment
4.11	Explain why checks are rejected for payment	4.11.1	Discuss the three different reasons why checks are rejected for payment
4.12	Discuss properly payable items	4.12.1	Given examples of checks, identify whether they are properly payable
4.13	Discuss the different types of statements used by banks	4.13.1	Identify the various methods used by banks in rendering bank statements to
4.14	Explain the customer's responsibility in examining statements and reconciliation	4.14.1	List the consumer's responsibilities in examining statements and reconciliation

Unit 5: The Credit Function: Funds Management and Loan Categories
Hours: 15

Terminology: Collateral; Consumer reporting agency (CRA); Equal Credit Opportunity Act; Fair Credit Reporting Act; Fair Debt Collections Practices Act; Fair, Isaac and Company, Inc. (FICO) score; Grace period; Installment loan; Lien; Line of Credit; Secured loan; Subprime rate; Truth in Lending Act (TLA); Underwriting; Unsecured loan, Adjustable rate mortgage, Asset-based lending, Balloon mortgage, Commercial lending, Debt ratio, Debt service coverage ratio, Escrow, Factoring, Fixed rate mortgage, Foreclosure, Loan-to-value ratio, Mortgage, PITI, Point, Redlining, Reverse mortgage, Shared appreciation mortgage, Short-term loan, Small Business Administration (SBA), Term loan, Credit Worthiness, Principal

CAREER and TECHNICAL SKILLS			
What the Student Should Know		What the Student Should be Able to Demonstrate	
Knowledge		**Application**	
5.1	Define terminology	5.1.1	Prepare a list of terms with definitions
5.2	Discuss Truth in Lending Act	5.2.1	State how Regulation Z relates to the Truth in Lending Act
5.3	Discuss the uses and responsibilities of credit in the business world	5.3.1	List the C's of credit
5.4	Explain the objectives of funds management	5.4.1	Describe the different objectives of funds management
5.5	Discuss the different divisions into which banks group their loans	5.5.1	Research the different types of loans
5.6	Discuss the different types of interest	5.6.1	Calculate the interest and payments on different types of loans using the different types of interest
5.7	List the factors involved in setting interest rates	5.7.1	Discuss the factors involved in setting interest rates
5.8	Discuss the credit approval process	5.8.1	Research and compare the major consumer reporting agencies
		5.8.2	Analyze the Fair, Isaac and Company, Inc. (FICO) credit scoring system
5.9	Discuss lending policy	5.9.1	Explain the contents of lending policies

Glossary
Unit 1: History of Banking

1. Bank run – circumstance when many depositors withdraw money from their bank all at once

2. CAMELS (Capital adequacy, Asset adequacy, Management, Earnings, Liquidity, and Sensitivity to risk) – six criteria of safety and soundness used to evaluate banks

3. Central banks – government banks that regulate and manage money supply

4. Commercial bank – most common form of government-backed corporate bank

5. Depositors – people who put money into the bank

6. Depository intermediary – holds funds for the public and uses the funds to finance their business

7. Deregulation – the loosening of government control

8. Discount rate – the interest rate charged to banks by the Federal Reserve

9. District reserve bank – regional bank of Federal Reserve System

10. Federal Deposit Insurance Corporation (FDIC) – agency that guarantees bank deposits

11. Financial intermediary – the functions of the bank as the institution that safeguards, transfers, exchanges, and loans money

12. Great Depression – the worst and longest economic crisis in Western industrialized nations, from 1929 until about 1939

13. Inflation – a collective rise in money supply, incomes, and prices

14. Medium of exchange – an agreed-upon system for measuring value of goods and services

15. Member bank – national or state bank that is part of the Federal Reserve System

16. Non-depository intermediary – a private company that does not receive deposits but sells financial services

17. Retail bank – institution developed to help individuals who are not served by commercial banks

18. Regulation C – a regulation that implements the Home Mortgage Disclosure Act of 1975. Regulation C mandates that depository institutions must annually disclose the communities to which they provided residential mortgages. This allows regulatory authorities to evaluate whether the lender is adequately meeting the needs of the prospective borrowers in that community

19. Regulation D – a Securities and Exchange Commission (SEC) regulation governing private placement exemptions. Reg D allows usually smaller companies to raise capital through the sale of equity or debt securities without having to register their securities with the SEC

20. Regulation DD – a regulation set forth by the Federal Reserve. Regulation DD was enacted to implement the Truth in Savings Act that was passed in 1991. This act requires lenders to provide certain uniform information about fees and interest when opening an account for a customer

21. Stagflation – a combination of a stagnate economy and high inflation

Unit 2: Measuring and Reporting Financial Performance

1. Asset – anything of value
2. Equity – the difference between what an item is worth and what is owed on it
3. Liability – to banks, deposits represent this type of obligation
4. Liquid asset – anything of value that can be readily exchanged
5. Net Income - is the income that is left over after adding total revenue and gains and subtracting all expenses and losses for the reporting period
6. Niche market – a targeted smaller group of customers
7. Profit – revenue minus cost
8. Return on assets – the ratio of net income to total assets
9. Return on equity – measures how well a bank is using its equity (also called stockholders' equity)
10. Revenue – income that a company receives from its normal business activities
11. Spread – the difference between interest paid and interest received

Unit 3: Advances in Banking Technology

1. Bearer instrument – a negotiable instrument payable to whoever holds it
2. Bill of exchange – a negotiable and written order addressed by one party to another
3. Cash card – card commonly used at an ATM
4. Charge card – card used when a consumer makes purchases but must pay the account in full at the end of the month
5. Credit card – allows consumers to pay all or part of their bills each month and finance the unpaid balance
6. Debit card – transfers money from a person's designated account to the account of the retailer
7. Draft – an order signed by one party that is addressed to another party directing the drawee to pay to someone the amount indicated on the draft
8. E-commerce – the buying and selling of products and services through an electronic medium (Internet)
9. Elements of negotiability – certain legal requirements that a check must meet
10. Electronic Funds Transfer (EFT) – moving funds between different accounts in the same or different banks, through the use of wire transfer, automatic teller machines, or computers, but without the use of paper documents
11. Mobile banking – conducting banking transactions using a cell phone
12. Negotiable instrument – a written order or promise to pay a sum of money to a specified party or the person who holds it
13. On-line banking – conducting banking transactions using a computer over the Internet
14. Promissory note – a written promise to pay at a fixed or determinable future time a sum of money to a specified individual
15. Smart card – card with embedded microchips

Unit 4: The Deposit and Payment Function

1. Aggregate measures – tools used to estimate the size of the money supply
2. Annual percentage rate – nominal rate on which interest is calculated per year
3. Annual percentage yield – effective rate of interest when compounding is factored in
4. Certificate of Deposit (CD) – savings instrument with fixed interest rate and fixed maturity date
5. Checking account – an account which allows the holder to write checks against deposited funds
6. Commodity money – currency based on some item of value, such as gold or precious stones
7. Compound interest – return calculated by adding interest to principal for next interval
8. Demand deposit – deposit payable on demand whenever the depositor chooses
9. Discount rate – interest rate that the Fed charges for loans to member banks
10. Excess reserves – those reserves held by a bank beyond its reserve requirement
11. Federal funds rate – interest charged for short-term, interbank loans
12. Fiat money – money deemed legal tender by the government but not based on or convertible into a commodity
13. Fractional-reserve system – practice of reserving only part of a deposited quantity
14. Interest – price paid for the use of money
15. Liquidity – the measure of how quickly things may be converted to something of value like cash
16. Money Market Deposit Account (MMDA) – savings account earning a competitive interest rate from invested deposits
17. Money supply – liquid assets held by banks and individuals
18. Multiplier effect – phenomenon that creates new deposits from lending
19. Primary reserves – cash on hand, deposits due from banks, and the percentage required by the Federal Reserve System
20. Prime rate – interest rate banks charge their best and most reliable customers
21. Secondary reserves – reserves other than primary reserves
22. Statement savings account – provides a monthly or quarterly computerized statement detailing all account activity

23. Time deposit – deposit held for or maturing at a specified time

24. Transaction account – account that allows transactions to occur at any time and in any number

Unit 5: The Credit Function: Funds Management and Loan Categories

1. Adjustable rate mortgage – a mortgage with changing interest rate
2. Asset-based lending – loan secured with the assets of a business
3. Balloon mortgage – a mortgage in which the entire remaining balance of the loan is due in one single payment
4. Commercial lending – loans to business enterprises
5. Consumer reporting agency (CRA) – company that compiles and sells credit records
6. Credit worthiness – a creditor's measure of an individual's or company's ability to meet debt obligations
7. Debt ratio – total obligations compared to total income
8. Debt service coverage ratio – comparison of net operating income to the total cost of debt
9. Equal Credit Opportunity Act – prohibits the use of race, color, religion, national origin, marital status, age, receipt of public assistance, or exercise of any consumer right against a lender as a factor in determining creditworthiness
10. Escrow – when something of value is put in the care of a third party until certain conditions are fulfilled, as a deed, money, etc.
11. Factoring – a form of lending that advances cash in exchange for a business’s receivables
12. Fair Credit Reporting Act – guarantees consumers the right to review and dispute information in the reports
13. Fair Debt Collection Practices Act – Protects consumers from unfair collection techniques
14. Fair, Isaac and Company, Inc. (FICO) score – a three-digit number that credit granters can use in making a loan-approval decision
15. Fixed rate mortgage – conventional mortgage
16. Foreclosure – when the mortgage is not paid, the creditor seeks a court-ordered sale of the property
17. Grace period – period for which no interest charges accrue if balance is paid in full by due date
18. Installment loan – loan with fixed amount of payments, rate of interest, and length of term
20. Lien – a legal claim to the property to secure the debt
21. Line of credit – an arrangement in which a bank or vendor extends a specified amount of unsecured credit to a specified borrower for a specified time period (also called credit line)
22. Loan-to-value ratio – amount of loan divided by the property value

23. Mortgage – a note secured by real property

24. PITI – principal, interest, taxes, and insurance

25. Point – a value equal to 1 percent of loan principal

26. Redlining – discriminatory act whereby banks refuse to lend to residents in certain neighborhoods

27. Reverse mortgage – form of a consumer loan tied to the appreciated value of a property

28. Secured loan – a loan in which some item of value backs the loan in case the borrower defaults on the loan

29. Shared appreciation mortgage – form of consumer lending that may lower rate for borrower who agrees to share the property's appreciation with the lender

30. Short-term loan – financing for a year or less

31. Small Business Administration (SBA) – agency that offers financial, technical, and management programs to help businesses

32. Subprime rate – rate that is higher than normal to offset the increased risk represented by a less-than-perfect borrower

33. Term loan – financing for permanent working capital, equipment, and real estate

34. Truth in Lending Act – guarantees that all information about costs of a loan is provided in writing

35. Underwriting – reviewing a loan for soundness

36. Unsecured loan – loan backed by only the reputation and creditworthiness of the borrower